
Senate Budget and Fiscal Review—Wesley Chesbro, Chair
SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Jack Scott
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ITEMS 0558/0650-001-0001 OFFICE OF THE SECRETARY FOR EDUCATION**ISSUE 1: Various Adjustments -- New Positions and Changes in Funding Sources**

DESCRIPTION: The Governor's Budget proposes an increase of two staff positions for the Office of the Secretary for Education in 2006-07. As currently proposed, these positions will be funded through federal funds and reimbursements and will not require a General Fund increase.

BACKGROUND: The Governor's budget proposes to add two, ongoing staff positions within the Office of the Secretary for Education:

Staff Representative to Proposition 49 Task Force. The Governor's January budget proposes **\$95,000** in General Funds for one staff position to represent the Secretary for Education at the Proposition 49 Task Force. In a Department of Finance (DOF) April Letter (see below), the Administration proposes to replace General Funds for this position with reimbursements from the Department of Education (CDE). The Proposition 49 Task Force was convened by the Governor's Office, the Secretary for Education, CDE and the Department of Finance to ensure that the Proposition 49 funds are distributed in a timely and effective manner through the development of a statewide master plan. This position would participate in task force meetings; coordinate regional summits of after school providers and stakeholders; conduct field outreach; and assist in policy analysis and development.

Staff to Address Federal Accountability Requirements. The Governor proposes **\$100,000** in federal funds for one staff position to address the growing workload associated with the accountability requirements of the No Child Left Behind Act (NCLB). The position will also address a request by the Governor for the Secretary for Education and the State Board of Education to work with the Superintendent of Public Instruction (SPI) and the U.S. Department of Education to bring the federal and state accountability systems into alignment, in order to target assistance to the most struggling schools.

April Finance Letter – Technical Adjustment:

- 1. Reimbursement, Proposition 49 Staff.** It is requested that Items 0558-001-0001 and 0650-011-0001 be decreased by \$48,000 and \$47,000, respectively, and reimbursement be increased by \$48,000 and \$47,000, respectively, to expend funds received from the Department of Education to provide staff support for the Proposition 49 After School Advisory Committee.

LAO Recommendation:

RECOMMENDATIONS: Staff recommends approve as budgeted with changes proposed by the April Finance Letter.

OUTCOME:

ITEM 6360 COMMISSION ON TEACHER CREDENTIALING**ISSUE 2. Budget Update & Adjustments**

DESCRIPTION: The Governor's January budget for the Commission on Teacher Credentialing (CTC) estimates healthy fund balances for the two major special funds that support the CTC – the Test Development Administration Account and the Teacher Credentials Fund in 2006-07. As a result, the Governor's Budget eliminates the **\$2.7 million** in one-time General Fund support provided in 2005-06. The Governor's Budget proposes to redirect four existing positions within CTC to reduce credentialing workload. CTC will provide an update on (1) efficiency studies required by the 2005-06 budget and (2) the status of processing efficiencies.

BACKGROUND:

The Commission on Teacher Credentialing (CTC) is responsible for the following:

- Issuing credentials, permits, certificates and waivers to qualified applicants;
- Enforcing standards of practice and conduct for license applicants and holders;
- Developing standards and procedures for the preparation and licensure of school teachers and school service providers;
- Evaluating and approving teacher and school service provider preparation programs; and
- Developing and administering competency exams and performance assessments.

Summary of Credential Workload and Staffing Changes: The CTC currently receives more than **240,159 applications** for credentials, emergency permits and credential waivers. As indicated below, the number of applications has been uneven in recent years. Over the last five years there was growth in the credential applications, followed by a drop in applications for the two prior years. In 2005-06, CTC is experiencing an increase of 3 percent in the application volume from FY 2004-05. Although staffing has been reduced consistently over the last five years through the budget resulting in an overall loss of 17.8 positions (22 percent) as a result of anticipated efficiencies from the Teacher Credentialing Service Improvement Project. It is important to keep in mind that this project was intended to replace an antiquated credentialing system not to replace staff.

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Credential Applications Received^a	215,954	239,501	250,701	235,327	233,164	240,159	240,159
Waiver Applications Received	7,865	7,918	5,144	2,827	2,402	2,000	2,000
Total	223,819	247,419	255,845	238,154	235,566	242,159	242,159
Total Certification Assignment and Waivers Division Staff	82.1	83.2	77.4	71.2	60.6	65.2	72.2
Credential Fees	\$55	\$55	\$55	\$55	\$55	\$55	\$55

^a Includes emergency permits.

Governor's Budget: The Governor's Budget proposes **\$51.2 million** for the total CTC's budget in 2006-07, providing an overall increase of **\$600,000**. Of this amount, the Governor proposes to continue **\$31.8 million** from the General Fund (Proposition 98) to support three local assistance education programs administered by the CTC – the Alternative Certification Program, Paraprofessional Teacher Training Program, and Teacher Misassignment Monitoring Program.

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
General Fund	\$2,700	\$0	-2,700	-100.0
General Fund, Proposition 98	\$31,814	\$31,814	0	0.0
Teacher Credentials Fund	12,253	14,754	2,501	20.4
Test Development & Adm. Account	3,751	4,627	876	23.4
Federal Trust Fund	0	0	0	0.0
Reimbursements	76	0	-76	-100.0
Total	\$50,594	\$51,195	\$601	1.2

The Governor proposes **\$19.4 million** from the two special funds that support the CTC's state operations, providing an increase of **\$3.4 million**. Specifically, the Governor proposes funding of **\$14.8 million** from the Teacher Credentials Fund and **\$4.6 million** from the Test Development and Administration Account in 2006-07.

Status of Credential and Exam Fees:

- The Teacher Credentials Fund is generated by fees for issuance of new and renewed credentials and other documents. The credential fee is \$55, which is set in the annual budget, although other statute authorizes a credential fee of up to \$75. In 1998-99, the credential fee was reduced from \$70 to \$60 due to increases in the number of applications. At this time there was increased demand for teachers due to new class size reduction programs. In 2000-01, the fee was dropped to \$55 and has remained at this level since then. The \$15 loss in fees since 1998-99 equates to an annual loss of approximately \$3.3 million.
- The Test Development Administration Account is generated by various fees for exams administered by the CTC such as the California Basic Educational Skills Test (CBEST), California Subject Examination for Teachers (CSET), and the Reading Instruction Competence Assessment (RICA). The commission recently raised fees by \$6 for all exams except the CBEST. Prior to this, fees had not been increased since 2001-02.

Special Fund Balances: In 2005-06, the Governor proposed a General Fund backfill of \$2.7 million to address shortfalls in both the Teacher Credentials Fund and Test Development Administration Account. Both accounts are showing positive balances in 2006-07 as a result of the reduction in expenditure authority for each of these funds and the increase of the General Fund Authority. The overall funding for state operations did not change, just the fund in which the expense is being reflected. Specifically, the CTC projects ending balances of \$3.3 million in 2005-06 and \$1.8 million in 2006-07 for the Teacher Credentials Fund, assuming expenditure

levels proposed by the Governor. For the Test Development Administration Account, fund balances are estimated at \$2.8 million in 2005-06 and \$1.9 million in 2006-07.

Budget Year Adjustments:

- **Eliminate General Fund Backfill and Restore Special Fund Expenditure Authority.** The Governor's Budget eliminates the **\$2.7 million** General Fund appropriation provided in 2005-06 to address an anticipated shortfall in special funds to support the CTC's state operations budget. The Administration provided these funds on a one-time basis. To offset this General Fund reduction, the Governor proposes to increase expenditures from the Teacher Credentials Fund and the Test Development Administration Account by \$2.7 million to reflect an increase in available fund balances.
- **Increase Special Fund Authority to Reflect the Proposed Increase in Central Services Costs.** The Governor proposes to increase the expenditure authority of the Teacher Credentials Fund and the Test Development Administration Account by **\$677,000** to reflect an increase in centralized services costs assessed to special fund agencies. These assessments cover support services provided by other state agencies.
- **Redirect Positions to Reduce Credential Processing Time.** The Governor proposes to convert four high level positions in the Professional Services Division into **seven technical positions** in the Certification, Assignment and Waivers Division to reduce credentialing workload. The Governor also proposes that CTC submit quarterly reports to the Legislature, Legislative Analyst's Office, Office of the Secretary of Education, and Department of Finance on the status of the credentialing backlog. These reports should include information on the size of the current backlog as well as updated estimates as to when the backlog will be fully eliminated. The CTC currently provides a quarterly update to the Legislature, Legislative Analyst's Office, Office of the Secretary of Education, and Department of Finance on the credentialing workload, so this requirement will continue into 2006-07.

Efficiency Studies Required by 2005-06 Budget:

CTC implemented a number of program efficiencies and cost savings that were approved by the Commission last year and enacted as a part of the final 2005-06 budget. In addition, budget bill language in 2005-06 required the CTC to complete reports for two possible, additional efficiencies raised by the Commission last year. The two efficiencies involved an assessment of both: (1) the feasibility of relying on internal counsel rather than Attorney General representation at administrative hearings; and (2) the feasibility of establishing fees for disciplinary review and associated disciplinary action. The CTC transmitted these two feasibility reports to the Legislature on December 1, 2005. Specific cost estimates and conclusions from each of the studies include:

- **Conclusion: The Feasibility of Relying on Internal Counsel Rather Than Attorney General Representation at Administrative Hearings.** The Commission could realize

significant cost savings (\$707,175) if it received authorization from the Office of the Attorney General or a statutory change to allow for in-house legal representation of administrative hearings. Some savings (\$91,000-\$226,700) could be realized if the CTC instituted a plan to shift some of the current Legal Assistant workload back to the CTC, however, the full amount of the savings could be off-set in part by a duplication of workload once a case was sent to the OAG and assigned to a DAG.

- **Conclusion: Feasibility Study for Establishing Fees for Disciplinary Review and Associated Disciplinary Action.** After a review of the complete proposal at the November/December Commission meeting, the Commission determined that this proposal does not appear feasible to implement given the legal challenges it raises as well as the potential financial burden on teachers. The amount of revenue generated by fees and fines ranges from \$2,524,750 to \$4,955,150. However this potential revenue is off-set by anticipated costs of collection and administration and the estimated recovery rate. The net amounts generated would range from \$993,971-\$2,026,891. None of the changes could be accomplished without extensive statutory and regulatory authority; therefore, the earliest possible implementation date would be January, 2007.

The Legislature and Department of Finance are required to consider these feasibility reports when preparing the CTC 2006-07 budget. While both studies identified provide significant potential savings, the general conclusion of both reports was not positive about implementation. The Governor's Budget did not include these efficiencies in the 2006-07 budget proposal.

Delayed Discipline Efficiencies in 2005-06

The Commission has not implemented three of the efficiencies that were enacted as a part of the 2005-06 budget following a letter from the Legislative Leadership in September 2005. Specifically, the Senate Pro Tem and Assembly Speaker sent a letter to the Chair of the Commission stating that budget provisions contained in Chapter 73, Statutes of 2005 (SB 63/Committee on Budget) "may have inadvertently made substantive policy changes to CCTC procedures related [to] the rights of new applicants." Legislative leaders requested the Commission to postpone adoption of these regulations until early 2006 to give the Legislature an opportunity to revisit this issue. The changes in question, as approved by the Commission early last year and enacted in the 2005-06 budget, include:

- **DPP – Option 1. Eliminating Full Administrative Hearing Process for Lower Levels of Discipline (Private Admonitions and Public Approval).**
CTC Comments: Current statutes do not require a hearing pursuant to the Administrative Procedure Act for low level adverse action. Commission practice and regulations have been to provide full due process to all levels of appeal. Adoption of a regulation delineating a separate in-house appeals process in lieu of a formal hearing could provide savings by eliminating administrative appeal costs. (Estimated Savings=\$100,000)
- **DPP – Option 3. Eliminating All Certified Mailing Requirements.**

CTC Comments: The Commission recently adopted regulations that eliminated all but the statutorily required certified mailing requirements. The statute could be amended to eliminate all certified mail requirements. (Estimated Savings=\$11,000)

▪ **DPP – Option 6. Streamlining Investigative Processes for First Time Applicants.**

CTC Comments: Existing statutes and regulations provide applicants with a two-tiered review and a right to appear personally before the Committee of Credentials, the same process is available to credential holders. If first time applicants were limited to one paper review, the result would be a faster processing of applicants and cost savings by eliminating one review and personal appearances. Currently, the Committee of Credentials reviews approximately 4,400 applications a year at an average cost of \$800 per application. Not all of the upfront costs can be eliminated with this proposal, but some savings could be realized. The majority of the savings would be in workload which would allow staff to be redirected to address the discipline backlog. (Estimated Savings =\$14,804)

Savings associated with these efficiencies are estimated at \$125,804 annually and the budget for CTC was reduced accordingly in 2005-06. However, because these efficiencies were not implemented CTC has had to absorb these reductions in 2005-06. DPP Options 3 and 6 required statutory changes and that were included as part of Chapter 73. DPP Option 1 was going to be implemented through regulations at the November/December 2005 Commission meeting; however the regulations were pulled from the agenda.

LAO Recommendation: The LAO recommends no changes to CTC 2006-07 budget. The LAO recently released a report calling for major structural changes to CTC.

COMMENTS/RECOMMENDATIONS: Staff recommends approve as budgeted, with changes to eliminate three efficiencies adopted in 2005-06 that have never been implemented at the request of Legislative leadership. This action requires restoration of \$125,804 in the 2006-07 budget.

ISSUE 3. Local Assistance -- Teacher Data System (Item 6110-001-0890)

DESCRIPTION: The Department of Education will provide an update on development of a new teacher data system, including findings of the recently released feasibility study funded in the 2005-06 budget. The Department will also provide an update on the status of meeting the “highly qualified teacher” requirements of the federal No Child Left Behind (NCLB) act.

BACKGROUND: The 2005-06 budget appropriated **\$350,000** in federal Title II funds to the Department of Education to contract for a Feasibility Study Review (FSR) for a new teacher data system. The 2005-06 budget required CDE to convene a working group including the Department of Finance, LAO and other interested parties in selecting a vendor.

The FSR was completed on March 30, 2006 and submitted to the Department of Finance for approval. The Department of Finance is reviewing the FSR to determine whether it will propose any funding for development of the system in 2006-07. As required by language in the 2005-06 budget, the feasibility is required to:

- (1) inventory the teacher data elements currently collected by state agencies and county offices of education;
- (2) identify existing redundancies and inefficiencies;
- (3) identify the existing teacher data needs of state agencies and county offices of education for meeting state and federal compliance and reporting requirements;
- (4) identify the most cost effective approach for converting the existing data systems into an integrated, comprehensive, longitudinally linked teacher information system that can yield high quality program evaluations; and
- (5) estimate the additional one-time and ongoing costs associated with the new system.

Related Legislation: **SB 1614 (Simitian)** requires the Department of Education, in collaboration with the Commission on Teacher Credentialing, to contract for the development of a teacher data system – the California Longitudinal Teacher Integrated Data Education System (CALTIDES). The purpose of the system would be to evaluate the effectiveness of professional development and teacher preparation programs and improve monitoring of teacher assignments. The data system would utilize existing teacher databases and requires the Commission to establish “non-personally identifiable” teacher identification numbers for all public school teachers.

COMMENTS: The Subcommittee may want to ask CDE the following questions about the feasibility study for the teacher data system released in late March:

- (1) *What are the total costs for development of the teacher data system?*
- (2) *What are the ongoing costs associated with such a system once developed?*
- (3) *What is the timeframe for development of the teacher data system, i.e. what is the earliest the system could be implemented?*

ISSUE 4: High Priority Schools Grant Program (Item 6110-123-0001)

DESCRIPTION: The Governor's budget proposes a total of **\$243 million** in 2006-07 for the High Priority (HP) Schools Grant program. This budget provides **\$201 million** for a second cohort of HP. Annual funding for planning grants and implementation grants for the second cohort, as proposed, cannot exceed this amount in any fiscal year. The Governor proposes to revert **\$60 million** in funding appropriated for a second cohort of HP schools in 2005-06 that has not yet been expended. The Department of Education has developed several options for the Legislature to consider in expending these funds for the second HP cohort and for a pilot program to assist and intervene with alternative schools that are not eligible to participate in the HP program.

BACKGROUND: The High Priority Schools Grant Program provides grants of **\$400** per pupil to low performing schools, with priority for schools in the lowest performing deciles of the Academic Performance Index.

Provisions of the *Williams* settlement agreement, as contained in Chapter 900, Statutes of 2004, declares legislative intent that new schools be added to the HP program when HP and II/USP schools are phased out and that overall funding for the program be maintained at no less than **\$200 million** annually.

Funding for the first HP cohort was appropriated in 2002-03. In the spirit of the *Williams* settlement agreement, the 2005-06 budget appropriated \$60 million in II/USP savings to fund a second cohort of the HP program. Expenditure of these funds was contingent upon passage of legislation to address exit criteria for the program. Such legislation -- **AB 1758 (Umbert)** -- was enacted on April 18, 2006. While an urgency statute, it is unclear whether the \$60 million can be expended for new HP grants in the last two months of the 2005-06 fiscal year. If unexpended, the administration proposes that these funds be reverted.

CDE Recommendations:

The Department of Education has just recently developed a number of options and recommendations for coordinating the **\$60 million** in current year funds for HP and the **\$201 million** in HP funds in 2006-07. These options include:

- Allocation of planning grants in the Current Year (CY) is constrained by the \$201 million in the Budget Year (BY).
- There are sufficient funds to invite all unfunded 2005 API Base ranks 1 and 2 schools (775). This includes CSR schools who agree to become HP. This would leave balances of \$14.8 million (of \$201 million) in the budget year and \$25.8 million (of \$60 million) in the current year.
- Budget Year options for the remaining \$14.8 million are summarized in the following tables.

<u>Budget Year Option</u>	<u>Effect on Current Year</u>
1. Fund 31 of the 101 former II/USP schools in rank 1 that were unable to fully participate in HP	• Additional planning costs of \$1.55 million
2. Fund into rank 3 (30 schools)	• Additional planning costs of \$1.5 million
3. a. Fund 140 alternative schools pilot programs (\$7 million) <u>and</u> b. Provide funding for specific district activities directed at helping HP schools (\$7 million)	• None

Following decisions regarding the Budget Year, then decisions can be made to deal with the current year balance.

- Current Year options for \$25.8 million* remaining.
(*amount impacted by Budget Year decisions above)

<u>Current Year One-time Options</u>	<u>Effect on Budget Year</u>
1. Fund alternative schools program (\$7 - \$10 million)	• Frees up \$7 - \$10 million in Budget Year. Interacts with option 3a above.
2. Fund individualized learning plans for students at risk of not passing CAHSEE (\$5 - \$8 million)	• None
3. Provide support for specific district activities directed at helping HP schools (\$7 - \$10 million)	• Frees up \$7 - \$10 million in Budget Year. Interacts with option 3b above.
4. Provide more planning grants to rank 3 schools	• None

CDE is sponsoring **AB 2254 (Umberg)**, which would implement the Alternative Schools Pilot Program outlined above. The bill may be amended to include other options.

LAO Recommendation: The LAO recommends redirecting any new HP funding to support district-based interventions, not school-based interventions. The LAO cites findings from the II/USP evaluation conducted by AIR that found no significant impact for schools, but noted very

positive or negative effects for districts. The LAO indicates that districts ultimately make decisions about assisting and resourcing their schools.

COMMENTS/RECOMMENDATIONS: Staff recommends that the Subcommittee ask CDE and DOF about the status of the **\$60 million** in funds appropriated for a new HP program in the current year and plans for allocating these funds. Suggested questions include:

- (1) Now that the required legislation has been enacted, is it possible to appropriate some or all of the \$60 million in the current year?*
- (2) What is DOF's position on these funds in the budget? Does DOF plan to revert these funds at the end of the year?*
- (3) What level of HP funding does the Administration intend to provide in 2006-07 and how does this relate to the Williams agreements?*

OUTCOME:

ISSUE 5. Local Assistance – Community Day Schools (6110-190-0001)

DESCRIPTION: The Governor's budget provides **\$49.4 million** for the community day school program. This amount constitutes a \$2.4 million increase over the amount provided in 2005-06 to provide a cost-of-living adjustment. The Department of Education proposes an additional **\$4.3 million** in 2006-07 to cover an estimated shortfall in funding for this program in 2006-07.

BACKGROUND:

The community day school program provides alternative placement options for students that have been expelled or who are high-risk. The program was established pursuant to Chapter 974, Statutes of 1995 (AB 922/Friedman) in conjunction with the passage of other legislation mandating that school districts expel students for certain offenses (e.g., carrying a handgun to school, etc.) The program was created to provide a new option for students mandatorily expelled under the latter legislation. State law specifies that students may be assigned to a community day school only if they are one or more of the following: expelled students, students under probation, students referred to the school by a school attendance review board.

Districts or county offices of education running these program must give first priority to students that are "mandatorily expelled" because they committed an offense requiring expulsion under state law. Second priority is for students expelled under other offenses, and third priority is for all other students that can be served by the program.

In contrast to programs pre-dating the community day schools, which had shorter days and were generally run by county offices of education, community day schools may be run by school districts and are required to provide 6 hours of instruction a day, none of which can be independent study. Programs receive supplemental funds intended to address the additional costs of serving this population.

Enrollment and Funding:

Community Day Schools (CDS) are funded both through revenue limits (general purpose funding) for students and CDS supplemental program funding. State law specifies that districts running community day schools receive an additional \$4,000 per ADA in supplemental funding beginning in the 1999-2000 fiscal year, adjusted every year for inflation. County offices of education running community day schools receive an additional \$3,000 per ADA in supplemental funding, adjusted for inflation since 1999-2000. Programs can also receive an additional \$4 per student per hour (up to two hours a day) of programs provided beyond the 6 hours a day. While supplemental CDS funding is adjusted annually for COLA, it is not adjusted for growth.

Student enrollment, as measured by ADA, has grown significantly since the new program began in 1996-97. Student enrollment grew from 862 students to 11,414 students in 2004-05. According to CDE, there are approximately 380 community day schools statewide in 2005-06 and the number is expected to reach 415 in 2006-07.

While the CDS supplemental funding program was well funded in the beginning, funding has not kept up with enrollment growth, since the funding formula does not provide growth.

Fiscal Year	CDS Enrollment (ADA)	CDS Funding (In thousands)
1995-96	0	0
1996-97	862	52,593
1997-98	1,914	30,000
1998-99	3,104	20,000
1999-00	5,717	30,423
2000-01	7,218	41,377
2001-02	8,448	42,205
2002-03	10,463	42,204
2003-04	11,180	32,205
2004-05	11,414	45,060
2005-06		46,966
2006-07		49,399 (proposed)

Funding for the first year of the program in 1996-97 totaled \$52.6 million, however funding was reduced in later years to reflect program demand. By 2002-03, funding was proposed at \$42.2 million. In 2002-03, the program was reduced by \$10 million as part of mid-year reductions needed to meet a statewide budget shortfall.

In 2003-04, the program was reduced by another \$10 million as part of mid-year cuts, based on estimates that the program was over-funded by this amount. As the program enrollment grew and funding fell, a shortfall for the program began to develop, since the funding formula does not recognize growth.

Deficiency Funding: When the amount provided in the budget for this program is not enough to fund enrollment, CDE must pro-rate the shortfall. This ensures that all programs receive funding, but at a reduced level.

CDE Proposal to Address Budget Year Deficiency: CDE proposes to increase CDS supplemental funding by **\$4.3 million** in 2006-07 to address a program deficiency. This increase would fully fund program growth --estimated at 9.2 percent -- in 2006-07. CDE will provide additional detail on their proposal at the hearing.

COMMENTS/RECOMMENDATIONS: Staff notes that Community Day Schools provide important funding for students who face many educational challenges. Both the number of students and the number of schools participating in the program have grown significantly since the new program began. Until some measure of growth is provided for the program, deficiencies will continue to accumulate for the program statewide. When deficiencies occur, funds are simply pro-rated to all participating schools. In addition to the community day school program, there are several other categorical programs that CDE pro-rates funding to based upon deficiencies.

ISSUE 6. State Operations – Special Education Due Process Contract Deficiency

DESCRIPTION: The Governor's Budget proposes **\$4.5 million** in Non-98, General Funds to fund a deficiency request by CDE to cover a shortfall in funding associated with transition to a new contract provider for operation of the state's special education due process program in 2005-06. CDE now estimates the 2005-06 deficiency at **\$2.0 million**. The quality and timeliness of the data provided by the new CDE contractor -- Office of Administrative Hearings, Department of General Services -- is assessed for the purposes of monitoring outcomes during the transition period.

BACKGROUND:

Federal special education law requires that states receiving federal special education funding have a due process to resolve disputes between parents and school officials over the learning plans and services offered to special education students. Federal law prohibits CDE from acting as the administrative hearing agency for such disputes.

Prior to 2004, Education Code required the CDE to contract with a single, nonprofit organization or entity to provide due process services. This statute reflected the interest in maintaining some impartiality or independence for this function. Since 1989, CDE contracted with the McGeorge School of Law to serve as the administrative hearings agency for these disputes.

In 2002 and 2004, California Attorneys, Administrative Law Judges, and Hearing Officers in State Employment (CASE) initiated a legal case challenging the McGeorge contract. CASE was essentially challenging the state's ability to contract out for services that other civil service employees could perform. Based upon this successful legal challenge, the Administration and CDE requested budget trailer bill language as a part of the 2005-06 budget allowing CDE to contract with a state agency to perform this work.

In 2004-05, CDE issued a request for proposals to solicit competitive bids for a new contractor to provide the services. It received bids from McGeorge and OAH. According to CDE, McGeorge's bid was **\$43.7 million** for three years and OAH's bid was **\$30.4 million** for three years. Because the OAH bid was lower, CDE decided to enter into an interagency agreement with OAH, citing this as the appropriate contracting vehicle between two state agencies.

As of June 1, 2005, CDE and OAH entered into a three-year interagency agreement for the provision of due process hearings starting July 1, 2005, and mediations starting July 1, 2006. It also entered into a six-month transition contract with McGeorge for the provision of mediation services and due process hearings for hearings that were already initiated. According to CDE, as of January 1st of this year, OAH assumed responsibility for providing mediations in addition to due process hearings.

Governor's Budget Deficiency Proposal: The Governor's budget proposes **\$4.5 million** in non-Proposition 98 General Fund to cover unexpected costs in 2005-06 to administer the statewide special education due process program.

CDE now estimates the shortfall at **\$2.0 million** to cover transition costs to administer the due process program. CDE cites the following reasons for the shortfall: a greater than anticipated number of cases and other unanticipated costs. The 2005-06 budget provides a total of **\$10.14**

million to cover the costs of the interagency agreement. The Governor proposes the same level of funding in 2006-07.

Monitoring Data: The 2005 education omnibus trailer bill, SB 63, codified various data requirements for the new due process contract in order to assure the continuation of data provided by the previous contractor. The intent was to maintain data that could provide be used to monitor program access and outcomes during the transition period. The data included in statute reflected data included in CDE's interagency agreement with the new contractor.

The data specifically included quarterly reports from OAH on the status and outcomes of its process. The legislation required quarterly reports to provide continuity in the program, (since McGeorge had provided quarterly data reports on its outcomes), in order to assure that program access and quality were maintained during the transition period.

Despite this statutory requirement, OAH did not submit a report for the first quarter of the 2006-07 year and second quarter data was also delayed. OAH never informed the Legislature of this delay and cites unanticipated workload problems as the reason it did not submit the data. When OAH, submitted the data report for the first quarter, the data was incomplete and difficult to interpret for purposes of monitoring access and outcomes for the program during transition

Related Legislation: CDE is sponsoring **AB 2565 (Evans)** to appropriate the **\$3.5 million** for the current-year deficiency, in the event the Legislature decides not to fund the program through the budget.

COMMENTS/RECOMMENDATIONS:

Data Recommendations: Staff notes that CDE has not been able to provide data that provides assurances about the level and quality of services at OAH compared to services previously provided. In response, staff recommends that the data requirements contained in SB 63 be strengthened so that the Legislature can provide assurances about due process services.

Advocates for students and families have suggested the following data elements as being helpful in evaluating fairness, and are asking that OAH be required to provide information like this in its quarterly reports. (Attachment A provides comparison of these data elements, compared to data provided by McGeorge and OAH.)

- average length of hearings,
- the number of hearing requests that were rejected as insufficient,
- the number of hearing requests from parents and the number of hearing requests from districts,
- identification of non-English languages of parties requesting hearings,
- the number of requests for due process hearings resolved through mediations or resolved prior to the commencement of the hearing.
- the number of final decisions issued, and of these, the number decided in the favor of the pupil and the number decided in favor of the district
- the number of cases in which the districts was represented by an attorney, the number of cases in which the pupils and parents were represented by an attorney.
- Year end data.

Special education advocates note that the dispute resolution process has become more and more legal in nature and consequently more intimidating for parents, who often cannot afford legal representation. In addition, many parents face language barriers (e.g., not speaking English) that may make the process even more intimidating.

Deficiency Recommendations: Staff notes that despite a number of requests, CDE has not been able to provide specific justification to support their **\$2.0 million** deficiency request. In addition, while the estimates of the deficiency are constantly changing, fortunately the amounts have fallen from **\$4.5 million** originally requested by DOF to **\$2.0 million**. This deficiency request would require an appropriation of Non-Proposition 98, General Funds.

ISSUE 7. State Operations – State Special Schools (6110-005-0001 & 6110-006-0001)

DESCRIPTION: The Governor's January budget proposes **\$645,000** in additional staff positions and contract services for the School for the Deaf in Riverside in 2006-07. Most of funding is proposed as ongoing. No new funding is proposed for either the School for the Deaf or School for the Blind in Fremont. The DOF May 1st Letter also proposes funding adjustments for two capital outlay projects at the School for the Deaf in Riverside.

BACKGROUND: The State Special Schools include the California Schools for the Deaf in Fremont and Riverside and the California School for the Blind in Fremont. Students attending State Special Schools are served in residential or day programs. The two Schools for the Deaf provide instructional programs to more than 1,000 deaf students and the California School for the Blind provides instructional programs for approximately 130 blind, visually-impaired, and deaf-blind students.

Governor's Budget - Instruction: The Governor's budget contains the following augmentations for staff and services at the School for the Deaf in Riverside:

- **\$117,000** in one-time General Funds (Non-98) for a contract for a Data Resource Specialist to help transition the school to a new student data collection system.
- **\$47,000** in General Funds (Prop 98) for a 0.5 visual and performing arts teacher position to supplement another partial, existing position.
- **\$117,000** in General Funds (Prop 98) for a 0.9 resource specialist position to help the school implement instruction linked to the state's academic and performance standards.
- **\$285,000** in General Funds (Prop 98) for a 2.8 Early Childhood Education teachers to extend funding to additional students enrolling in the early childhood education program.
- **\$79,000** in General Fund (Non-98) for a 0.8 position to support the additional costs of maintenance and janitorial services for a new Pupil Personnel Services facility scheduled to be completed in July 2006.

Governor's Budget – Capital Outlay. The April DOF Letters propose the following adjustments to two capital outlay projects at the School for the Deaf in Riverside:

- **Building New Gymnasium and Pool Center.** DOF requests that the amount in item 6110-301-0660 be decreased by **\$773,000** to reflect a revision to the request for a gymnasium and pool center. The adjustment reflects the cost to build a new gymnasium and pool center rather than renovate the current facility. The proposed reduction would leave **\$24,963,000** for the project.

- **Kitchen and Dining Hall Seismic Renovations.** DOF requests that the amount in item 6110-301-0660 be increased by **\$4,428,000** to provide for extensive seismic modifications not anticipated for a renovation project for the kitchen and dining hall. The proposed increase would mean a total appropriation level of **\$8,834,000** for the project.

COMMENTS/RECOMMENDATION: *Staff notes* that all of the support augmentations and capital outlay adjustments proposed by the Governor are for one state school – the School for the Deaf in Riverside. *Staff recommends* delaying approval of these proposals until after May Revise.

OUTCOME:

ISSUE 8: State Operations – Various Positions

DESCRIPTION: The Governor proposes a number of staffing adjustments – increases and decreases – that are included in the Governor’s January 10 budget but that have not yet been heard by the Subcommittee. Other state operations proposals were discussed by the Subcommittee at earlier hearings or in other items in this agenda.

BACKGROUND: The Governor proposes the following staffing and expense adjustments for the Department of Education that have not yet been heard by the Subcommittee:

Accountability – Phase Out of II/USP. Eliminates **12.8 positions** and **\$1.6 million** in General Funds to reflect the phase-out of the Immediate Intervention in Underperforming School Program (II/USP) in 2006-07. CDE believes that these positions should be retained in order to maintain ongoing, state level accountability functions for schools. The Administration may modify this proposal at May Revise.

Child Nutrition - Information and Payment System. Provides **\$3.2 million** in federal funds and **7.4 limited-term positions** to begin implementation of the new Child Nutrition Information Payment System (CNIPS) in 2006-07. DOF approved the feasibility study report for CNIPS in March 2005.

Child Nutrition - Standards for Non-School-Meal Food. Provides **\$100,000** in General Funds for a **0.9 position** to coordinate the nutrition standards activities to implement Chapter 235/2005 (SB 12/Escutia). Chapter 235 sets nutrition standards for food sold outside the federal school meal programs during the school day at all elementary through high school campuses, effective July 1, 2007. The Governor also proposes **\$200,000** in reimbursements to be collected from vendors who elect to have their product certified as meeting the Chapter 235 standards.

Career Technical Education - Accountability System. Provide **\$63,000** in federal Carl Perkins funds and **\$107,000** in CalWORKs reimbursement funds to allow CDE to administer an accountability system for career technical education. Funding is provided to convert **1.9 limited-term positions** into **permanent positions** for this purpose.

Career-Technical Education Program – Staffing. Provides **\$193,000** in federal Carl Perkins funds for **1.9 limited-term positions** to implement the Career Technical Education program created by Chapter 352, Statutes of 2005 (SB 70/Scott). These positions would oversee the alignment of career technical education curriculum in K-12 schools and community colleges with industry-based programs; analyze and review curriculum; and prepare required reports. The Governor's budget proposes these positions in both 2005-06 and 2006-07.

Career-Technical Education – California Career Resource Network. Provides **\$159,000** in General Funds and **\$159,000** in federal funds to increase funding for an interagency agreement with the California Career Resource Network.

Special Education - Data Collection. Provides **\$288,000** in federal IDEA funds for **2.8 information technology positions** to meet new federal reporting and accountability requirements under the Individuals with Disabilities Education Act, as reauthorized in December 2004.

School Facilities Planning. Provides **\$167,000** to convert **1.9 limited-term positions** in the School Facilities Planning Division to **permanent positions**. These positions are funded with State School Facility Fund revenues. CDE believes these positions are needed to provide school districts with timely review and approval of school construction and modernization plans and the approval of sites on an ongoing basis.

Business Official Training. Provides **\$78,000** in General Funds for a **0.9 position** to administer the new Chief Business Official Training Program created by Chapter 356, Statutes of 2005 (SB 352/Scott). The position will work to develop criteria for the approval of state-approved training providers, developing an application process and reviewing applications. The Governor provides \$1 million for the second year of local assistance funding for the program in 2006-07. The Subcommittee heard this issue at an earlier hearing.

Child Care - Alternative Payment Monitoring Unit. Upgrades a 0.5 office assistant position to a **1.0 office technician** position to help CDE maintain a database in the Alternative Payment Monitoring Unit. The Governor proposes this change in both 2005-06 and 2006-07.

COMMENTS/RECOMMENDATIONS: *Staff recommends* that the Subcommittee delay approval of positions until May Revision to coordinate with actions on local assistance proposals and to consider possible revisions to these proposals.

OUTCOME:

ISSUE 9: April Finance Letter – Various State Operations and Local Assistance Items

DESCRIPTION: The DOF April 1, 2006 budget letters propose various changes to state operations and local assistance budget items for the Department of Education.

BACKGROUND: The April DOF Letters proposes the following adjustments to the January 10 budget:

- 1. State Operations - Restore Funds for the Review of California Native American Materials (Issue 646)** It is requested that Schedule (2) of this item be increased by \$50,000 in order to complete the review process of the California Native American Instructional Materials for alignment to the state History and Social Sciences standards. Chapter 870, Statutes of 2001 (SB 41/Alpert), appropriated \$50,000 to the SDE for this review process. Due to the unanticipated length of time that was required for the development of the materials, the SDE was unable to complete the review before the funds reverted. This action will restore those funds and allow the SDE to complete the necessary review of these materials as required by SB 41.
- 2. Local Assistance – Refugee Children School Impact Grant Program (Issues 828 and 829)** It is requested that Schedule (2) of Item 6110-125-0890 be reduced by \$2,050,000 and that reimbursements for Item 6110-125-0001 be increased by \$1,310,000 to reflect a decrease in federal funds and a funding shift for the Refugee Children School Impact Program. Prior to 2005-06, funding for this program was provided directly to the SDE from the federal government. In the current year and subsequent years, federal funding will be provided to the Department of Social Services, which, in turn, entered into an interagency agreement with the SDE to continue program administration. The Refugee Children School Impact Grant Program ensures that refugee children's education needs are met and receive the same educational opportunities as other students.
- 3. Local Assistance, Federal Vocational Education Funding (Issues 577 and 578)** It is requested that this item be increased by \$8,424,000. This includes a reduction of \$1,395,000 to conform federal expenditure authority with available grant funding and an increase of \$9,819,000 to reflect one-time carryover funding to support additional vocational education activities that complement the Governor's Career Technical Education Initiative.

It is further requested that provisional language be added as follows to conform to this action:

4. Of the funds appropriated in this item, \$7,569,000 is one-time carryover available for the support of additional vocational education instructional activities. These funds shall be used during the 2006-07 academic year to support curriculum development and articulation of K-12 tech prep programs with local community college economic development and vocational education programs in an effort to incorporate greater participation of K-12 students in sequenced, industry-driven coursework that leads to meaningful employment in today's high-tech, high-demand, and emerging technology areas of industry employment.

4. Local Assistance, Special Education (Issue 004) It is requested that Provision 3 of Item 6110-161-0890 be deleted as a technical correction since this provision is currently provided in Item 6110-161-0001.

RECOMMENDATION: *Staff recommends* approval of all four of these April Letter items.

ISSUE 10: Fiscal Status of School Districts – Presentation by FCMAT

DESCRIPTION: Presentation by Joel Montero, Deputy Executive Officer, Fiscal Crisis & Management Assistance Team (FCMAT) on the financial status of school districts.

BACKGROUND:

Interim Financial Status Reports. Current law requires school districts and county offices of education (LEAs) to file two interim reports annually on their financial status with the California Department of Education. First interim reports are due to the state by January 15; second interim reports are due by April 15.

As a part of these reports, LEAs must certify whether they are able to meet their financial obligations. The certifications are classified as positive, qualified, or negative. A positive certification indicates that a LEA will meet its financial obligations for the current and two subsequent fiscal years; whereas a qualified certification indicates a LEA may not meet its financial obligations during this period. Under a negative certification, LEAs are unable to meet their financial obligations in the current year or in the subsequent fiscal year.

According to the First Interim Report for 2005-06 – the most recent report available – there are currently five school districts with negative certifications and 32 school districts with qualified certifications. [See Attachment B for a complete list.] The five school districts with negative certifications listed below will not be able to meet their financial obligations for 2005-2006 or 2006-2007.

District	County	Budget
Oakland Unified	Alameda	\$432.1 million
Vallejo City Unified	Solano	\$143.3 million
Parlier Unified	Fresno	\$25.7 million
West Fresno Elementary	Fresno	\$8.1 million
Biggs Unified	Butte	\$6.4 million

There were 14 school districts on the negative certification list and 48 school districts on the qualified certification list Second Interim Report for 2004-05 released last July. Many school districts dropped off both lists. A total of 9 school districts dropped off the negative list and 16 school districts – including the Los Angeles Unified School District – dropped off the qualified list.

Three school districts remain on the negative certification list from last year -- Oakland Unified, West Fresno Elementary and Vallejo Unified. These districts have received emergency loans from the state. Two other school districts – West Contra Costa Unified and Emery Unified -- have emergency loans with the state, but are not on either the negative or qualified certification lists.

The numbers of school districts with negative and qualified certifications will reportedly increase when the Second Interim Report for 2005-06 is released by CDE later this spring.

Financial Pressures Facing School Districts. In their analysis last year, the LAO identified major financial pressures facing school districts that they essentially reiterate again in their budget analysis in 2006-07. These pressures include:

- (1) Low general purpose reserves;
- (2) Internal borrowing from self-insurance funds;
- (3) Falling state revenues due to declining enrollment; and
- (4) Higher costs for wage increases and health premiums/benefits.

COMMENTS: The LAO will present proposals for addressing escalating retiree health benefits costs to schools districts later in the Subcommittee agenda.

SUGGESTED QUESTIONS:

1. *Do you agree with the LAO's list of financial pressures facing school districts? What other factors are at play?*
2. *Chapter 52, Statutes of 2004 (AB 2756/Daucher) strengthens fiscal oversight of school districts, in particular county review and authority over school district budgets. Are county offices utilizing this new authority?*
3. *Are there additional reforms – beyond those contained in Chapter 52 – that the Legislature should consider to improve fiscal oversight of LEAs?*
4. *AB 1754 requires LEAs to report ending balance transfers – programs and amounts to the Superintendent of Public Instruction and the Joint Legislative Budget Committee in a timely manner. What do these reports tell us about the usefulness of ending balances in helping LEAs meet their budgets?*
5. *LEAs are required to report annually to the Department of Education on any amounts shifted between categorical programs pursuant to Control Section 12.40 of the budget. How would you assess the categorical funding transfers provided by Control Section 12.40? (This issue is discussed more fully in the next agenda item.)*

ISSUE 11: Categorical Flexibility – Control Section 12.40

DESCRIPTION: Control section 12.40 allows districts to transfer up to 10% of the funding from any one categorical program into another categorical program, as long as the total increase to any one program does not exceed 15% of the base of the receiving program. The Governor April Finance Letter proposes to reduce the number of programs covered by control section. At the same time, the Subcommittee may wish to revisit the inclusion of Economic Impact Aid on the list of covered programs.

BACKGROUND: Control Section 12.40 of the budget gives LEAs additional budget flexibility allowing them to shift limited amounts of funding among categorical programs. This control section was added to the 1999-2000 budget to retain some of the transfer authority among categorical programs included in a budget “mega-item” that was eliminated that year.

The original control section allowed transfer of up to 20 percent of funding out of any program and to transfer up to 25 percent into a program in the control section. The authority was lowered to 10 percent “out” and 15 percent “in” beginning in 2003-04 given the significant, limited-term budget flexibility provided to LEAs that year. The Governor’s budget continues this same level of flexibility in 2006-07. or programs in 17 budget items.

Programs Covered by the Control Section. The Governor’s January budget lists 17 programs that are eligible for categorical transfer authority in Control Section 12.40. The April 1 Finance Letter proposes to eliminate 6 programs from the list. These 6 programs include categorical block grants established by AB 825 (Firebaugh). DOF believes that these programs already have adequate flexibility provisions. The programs that are subject to these flexibility provisions are the following are listed along with the level of proposed funding in 2006-07. The list below reflect adjustments proposed by the April DOF letter:

- Economic Impact Aid (\$648 million)
- Home to School Transportation (\$546.9 million)
- Year-Round School Grant Programs (\$93.1 million)
- Child Nutrition Programs (\$89.7 million)
- Gifted and Talented Pupil Program (\$48.9 million)
- Educational Technology – CTAP (\$16.9 million)
- Educational Services for Foster Youth (\$10 million)
- Specialized Secondary Programs (\$5.9 million)
- Agricultural Vocational Education Incentive Program (\$5 million)
- Bilingual Teacher Training (\$2.1 million)
- Teacher Dismissal Apportionments (\$45,000)

CDE Transfer Report:

As a condition of using the flexibility provisions allowed under control section 12.40, districts must report to CDE on the amounts they shift between programs. The most recent data available on these shifts is from 2004-05, when there were a larger number of programs in the control

section. Several of these program are no longer listed in the control section because they were rolled into the block grants as a part of AB 825.

Attachment C summarized the amounts districts statewide transferred in and out of the programs covered by the control section in 2004-05. These amounts show net transfers for districts statewide; the amounts transferred in and out programs differ by district. Overall, the Economic Impact Aid program accounted for most of the funding transferred *out* of programs. Home-to-School transportation was the program that received the greatest amount of transfers *into* programs.

Other Recent Transfer Flexibility:

Budget trailer bill language contained in AB 1754 (Chapter 227; Statutes of 2003) provided K-12 local education agencies (LEAs) with limited-term flexibility in accessing education reserves and balances of restricted funds in order to mitigate revenue limit reductions in the 2003-04 budget. Flexibility was provided in three general areas:

- Reduce minimum reserves for economic uncertainty to a range of .5 to 2.5 percent of budget (half the statutory level) in 2003-04 and 2004-05.
- Reduce school district maintenance reserves from 3 to 2 percent in 2003-04.
- Permit LEAs to access the 2002-03 ending balances for most categorical programs.

April Finance Letter:

Control Section 12.40 (Issue 839). A number of items containing appropriations for block grants were erroneously included in Control Section 12.40. Because statute already allows local educational agencies to transfer funds between these items, they should not be included in this control section. In addition, one of the other items in the control section has been renumbered. It is requested that Section (b) of Control Section 12.40 be amended to reflect these technical corrections.

“(b) The education programs that are eligible for the flexibility provided in subdivision (a) included in the following items: Items

6110-111-0001, 6110-119-0001, 6110-122-0001, 6110-124-0001, 6110-128-0001,
~~6110-151-0001~~ 6110-150-0001, 6110-167-0001, 6110-181-0001, 6110-193-0001,
 6110-203-0001, 6110-209-0001, ~~6110-243-0001~~, ~~6110-245-0001~~, ~~6110-246-0001~~,
~~6110-247-0001~~, ~~6110-248-0001~~, and 6110-224-0001 of this act.”

COMMENTS: While school districts appear to support the transfer flexibility provided by Control Section 12.40, it is questionable whether such large transfers out of the Economic Impact Aid program are appropriate. Economic Impact Aid is the state’s largest compensatory education program for poor students and students who are English learners. The Subcommittee may wish to explore removing Economic Impact Aid from Control Section 12.40.

SUGGESTED QUESTIONS:

1. *When the Legislature appropriates a certain funding level for English learners and poor students through EIA, does it intend for a portion of those funds to be used for transportation?*
2. *As the largest categorical program in the control section, if Economic Impact Aid were removed from the list, that would place demands on the balances of other programs.*
3. *Special education has been excluded from the Control Section 12.40 to protect that program, should Economic Impact Aid should be treated similarly?*
4. *If the Legislature wishes to provide funding flexibility, isn't it more appropriate to provide that flexibility through the new categorical block grants, and not through a control section that includes unrelated programs?*

OUTCOME:

ISSUE 12: Health Benefits Costs to Districts – LAO Proposal

DESCRIPTION: The LAO raises concerns about significant *and growing* retiree health benefit liabilities that are creating significant fiscal pressures for some school districts in the state. The LAO will present findings from a state survey of district liabilities and recommendations for addressing these liabilities.

BACKGROUND:

School districts provide retirement pension, health and other benefits to their employees. According to the LAO, while school districts pre-fund retirement pensions for their employees through annual contributions, they do not reportedly pre-fund health insurance benefits. Instead, they pay for benefits directly through their operating budgets once the benefits are claimed by retirees. This situation creates future liabilities for school districts when these retirement costs come due. Until recently, the significant size of these liabilities in some districts was not known statewide.

In the past, the state has mandated that school districts conduct an actuarial study of their retiree benefits. The new Government Accounting Standards Board (GASB) policies require school districts to account and report its long-term retirement liabilities in their annual financial statements beginning in 2006-07. These new requirements have brought new attention and concern to the issue of large and growing district health insurance retirement liabilities.

New GASB Policies: The new GASB policies that go into effect in 2006-07 require districts to identify their outstanding liabilities for retiree health benefits. Since many districts haven't been setting funds aside to cover these health benefits -- before employees retire -- some districts have large unfunded liabilities.

Previously, GASB policies did not encourage districts to budget for retiree health benefits the same way they budget pensions costs. This year a new GASB policy will require districts to identify the normal cost of retiree health benefits for current employees, as it does for pension costs. The normal cost is the amount that should be deposited in the benefit fund during an employee's working life to fully cover the cost of the benefits when an employee retires.

LAO Findings: Survey of School Districts:

In a recent survey, sixty-percent of districts statewide reported that they provide some form of health benefits for retirees. The table below is from the LAO Analysis and summarizes information from a recent survey on districts' unfunded liabilities related to retiree health benefits.

Figure 1 Estimated K-12 Retiree Health Benefits Unfunded Liabilities <i>(Dollars Per Student Enrollment)</i>				
Benefit	Number of Districts	Per-Pupil Liabilities ^a		
		High	Average	Low
Lifetime	76	\$13,624	\$4,075	\$84
Over age 65, not lifetime	116	5,144	1,706	61
Up to age 65	431	5,061	2,668	5
a These estimates are based on a subset of districts that provide the given benefit.				

LAO Findings: The LAO believes that these unfunded liabilities (summarized above) pose a major financial threat to the fiscal health of school districts in future years, particularly if districts chose to continue paying on a pay-as-you-go basis and wait until employees retire to before beginning payment for benefits. Under LAUSD's estimate of its unfunded liability, the LAO predicts that its cost for retiree health benefits on a pay-as-you-go basis will more than double in ten years, increasing from \$275 per student to \$575 per student. By the year 2020, costs are estimated to climb to \$755 per student.

According to the LAO, even if districts change from a pay-as-you go basis, and begin paying down their existing liabilities, the costs may be high. For example, the average district that provides lifetime benefits currently faces liabilities of about \$4,000 per student. To fund this amount over 30 years, a district would have to set aside roughly \$400 per student each year, or 8% of general purpose funds from state funds and local property taxes.

LAO Recommendations: The LAO is concerned about the significant size of retiree health benefit liabilities for school districts. Without immediate action, the LAO is concerned that these liabilities will translate into fiscal crisis in some districts that will require state bail out. The LAO is further concerned that school districts may lack incentives for addressing or curbing these costs without outside intervention.

Given declining revenues from declining enrollment, the LAO believes it is not likely that districts will have the funds to address their serious retiree health liabilities in the short term. For this reason, the LAO proposes the following recommendations:

- **Address Retiree Health Benefit Liabilities.** Data on retiree health benefits suggest that a significant number of school districts and county offices have accumulated significant unfunded liabilities for future costs of retiree health benefits.

- **Require Districts to Address Liabilities.** Recommend enactment of legislation to require county offices of education and school districts to develop a plan for addressing long-term liabilities for retiree health benefits.
- **Negotiate a Plan to Use Federal Funds for Retiree Costs.** Recommend the Legislature enact trailer bill language to allow districts to use state categorical program funds as part of a comprehensive plan for addressing retiree health liabilities. Also recommend the Legislature direct CDE to work with the federal government to develop a template that would guide district development of comprehensive plans for addressing unfunded retiree health benefits.
- **Create a Fiscal Solvency Block Grant.** Recommend the Legislature redirect **\$395.5 million** in Proposition 98 funds to a block grant that would provide districts and county offices with a source of funding to address the fiscal challenges they currently face.

Related Legislation:

SB 1457 (Simitian) – Requires the state to develop standards and criteria for actuarial studies of district retirement benefits in accordance with the new GASB standards. Requires school districts provide studies to the county office of education and counties to examine these studies in determining whether to adopt the school district budget. Requires school districts to develop a long –term plan for funding current and future retiree benefits.

SB 1514 (Maldonado) – Requires school districts to provide information to their governing boards regarding the estimated cost of retiree benefits and to annually certify to the county office of education what reserves are set-aside to cover these benefits.

AB 2793 (Arambula) – Requires that state standards and criteria for determining fiscal health be amended to include the ability of districts to cover the normal cost of their retirements benefits during the current and subsequent two fiscal years. Requires that the fiscal status of each school districts as positive, negative or qualified consider the ability of districts to cover these normal costs during this period.

OUTCOME:

ISSUE 13: UC, CSU and CCC – May 1 Finance Letters (Consent)

Staff recommends that the subcommittee approve all of the issues for the University of California, California State University and the California Community Colleges as contained in the following May 1 Finance Letters.

Amendment to and Addition of Various Budget Bill Items as Follows:

University of California	6440-301-6048
	6440-302-6048
	6440-491
California State University	6610-301-6028
	6610-491

1. University of California

Add Item 6440-491 to reappropriate funds, for the following project phases from Items 6440-301-6041, 6440-302-0574, 6440-302-6028, and 6440-302-6041, Budget Act of 2005.

1. Riverside Campus, Environmental Health and Safety Expansion—Preliminary Plans and Working Drawings.
2. Santa Cruz Campus, Digital Arts Facility—Working Drawings.
3. Los Angeles Campus, Life Sciences Replacement Building—Construction.
4. Riverside Campus, Materials and Science Engineering—Construction.

Reappropriation is necessary on the preceding four projects because of delays attributed to project redesigns to keep the project within the approved budget.

Amend Item 6440-301-6048 to reflect the shifting of two projects from the capital outlay “streamline” process (i.e., all project funding phases appropriated in one fiscal year, but no scope changes or augmentations) to the conventional capital outlay process. (See corresponding reduction below in Item 6610-302-6048.)

1. Increase funding (\$17,925,000) for the Davis Campus: King Hall Renovation and Expansion—Preliminary Plans, Working Drawings, and Construction.
2. Increase funding (\$2,571,000) for the Irvine Campus: Primary Electrical Improvements, Step 3—Preliminary Plans, Working Drawings, and Construction.

Amend Item 6440-302-6048 to reflect the shifting of two projects from the capital outlay “streamline” process to the conventional capital outlay process. (See corresponding shift above in Item 6610-301-6048.)

1. Decrease funding (\$17,925,000) for the Davis Campus: King Hall Renovation and Expansion—Preliminary Plans, Working Drawings, and Construction.
2. Decrease funding (\$2,571,000) for the Irvine Campus: Primary Electrical Improvements, Step 3—Preliminary Plans, Working Drawings, and Construction.

2. California State University

Add Item 6610-491 to reappropriate funds for the following project phases in Item 6610-302-6041, Budget Act of 2004.

1. Bakersfield Campus, Math and Computer Science Building—Construction.
2. Fullerton Campus, College of Business and Economics—Construction.
3. Maritime Academy, Simulation Center—Construction.
4. Northridge Campus, Science 1 Replacement—Construction.
5. Pomona Campus, Science Renovation—Construction.
6. San Luis Obispo, Engineering/Architecture Renovation and Replacement, Phase II—Construction.

For the preceding six projects, a reappropriation is necessary because of delays in completing construction documents to bring the projects in line with the approved budget.

Add Item 6610-491 to reappropriate funds for the following project phases in Item 6610-301-6041, Budget Act of 2005.

7. Dominguez Hills Campus, Educational Resource Center Addition—Construction.
8. Long Beach Campus, Seismic Upgrade, Liberal Arts 2, 3 and 4—Construction.

For the preceding two projects, a reappropriation is necessary because of delays in completing construction documents to bring the projects in line with the approved budget.

9. Long Beach Campus, Peterson Hall 3 Replacement Building—Working Drawings.

The project has been delayed in the approval of preliminary plans by the State Public Works Board, pending the project cost increase included in the proposed 2006-07 Governor’s Budget. Additional time is needed to complete working drawings due to this delay.

Add Item 6610-491 to reappropriate funds for the following project phase in Item 6610-302-6041, Budget Act of 2005.

10. Sonoma Campus, Music/Faculty Office Building—Construction.

A reappropriation is necessary because of delays in completing construction documents to bring the project in line with the approved budget.

Add Item 6610-491 to reappropriate funds for the following project phase in Item 6610-301-6028, Budget Act of 2003.

11. Maritime Academy, Land Acquisition—Acquisition.

A reappropriation is necessary due to delays in acquiring three parcels of property for the Maritime Academy's proposed new physical education building.

3. California Community Colleges.

Capital Outlay, Add Item 6870-491 to reappropriate funds, for the following project phases from Item 6870-301-6028, Budget Act of 2003, as reappropriated by Item 6870-490, Budget Act of 2004 and Budget Act of 2005.

1. Los Angeles Community College District (CCD), East Los Angeles College, Fine and Performing Arts Center—Construction and Equipment. This project has been delayed because of discussions with city planners and fire marshals regarding easements and adequate fire protection and access.

In addition, the following reappropriations are requested because of delays attributed to project redesigns to keep the projects within the approved budget, unexpected site conditions, and delays resulting from plan review and approval. Therefore, add Item 6870-491 to reappropriate funds, for the following project phases from items:

A. 6870-301-6028, Budget Act of 2003:

5. Mt. San Antonio CCD, Mt. San Antonio College, Remodel Classroom Buildings—Equipment.

B. 6870-301-6041, Budget Act of 2004:

1. Mt. San Antonio CCD, Mt. San Antonio College, Agriculture Sciences Project—Construction and Equipment.

C. 6870-301-6041, Budget Act of 2004, as reappropriated by Item 6870-490, Budget Act of 2005:

1. Chaffey CCD, Chaffey College, Health and Physical Science Building Renovation—Working Drawings.
2. Los Angeles CCD, Los Angeles Pierce College, Child Development Center—Construction and Equipment.
3. Palo Verde CCD, Palo Verde College, Physical Education Complex—Construction and Equipment.
4. Rancho Santiago CCD, Santiago Canyon College, Science Building—Construction.
5. Santa Barbara CCD, Santa Barbara City College, High Technology Center—Working Drawings.
6. Copper Mountain CCD, Copper Mountain College, Multi-Use Sports Complex—Construction and Equipment.

D. 6870-301-6041, Budget Act of 2005:

1. Citrus CCD, Citrus College, Vocational Technology Building—Working Drawings.
2. Desert CCD, College of the Desert, Water and Sewer Infrastructure Replacement—Working Drawings.
3. Contra Costa CCD, Los Medanos College, Core Building Remodel—Working Drawings.
4. El Camino CCD, El Camino College, Learning Resource Center Addition—Construction and Equipment.
5. Hartnell CCD, Hartnell East Campus, Center for Assessment and Lifelong Learning—Construction and Equipment.
6. Long Beach CCD, Long Beach City College, Pacific Coast Campus, Library and Learning Resource Center—Construction and Equipment.
7. Long Beach CCD, Long Beach City College, Liberal Arts Campus, Library and Learning Resource Center Renovation and Addition—Construction and Equipment.
8. Los Angeles CCD, Los Angeles Harbor College, Adaptive Physical Education and Physical Education Building Renovation—Construction and Equipment.

9. Los Angeles CCD, Los Angeles Harbor College, Child Development Center—Working Drawings, Construction, and Equipment. Additionally, the district requests a scope change to reduce the original square footage of the 13,587 assignable square feet (asf) building to 9,999 asf as a value engineering effort to keep the project within the state appropriation. This project was appropriated with provisional language that restricted the district from requesting augmentations or scope changes. However, due to cost increases in the construction market, the original scope is no longer feasible. The reduction combines a few smaller classroom areas into one large classroom with folding walls to allow for visual and sound separation which helps keep the program delivery intact. The new scope provides for 1,617 asf laboratory, 1,326 asf office, and 7,056 asf of other (demonstration, storage) child development space.
10. Palo Verde CCD, Palo Verde City College, Fine and Performing Arts—Working Drawings.
11. Rio Hondo CCD, Rio Hondo College, Applied Technology Building Reconstruction—Working Drawings.
12. Rio Hondo CCD, Rio Hondo College, Learning Resource and High Technology Center—Construction and Equipment.
13. San Francisco CCD, John Adams Campus, John Adams Modernization—Construction.
14. San Luis Obispo County CCD, North County Center, Technology and Trades Complex—Construction and Equipment.
15. San Mateo County CCD, Skyline College, Allied Health Vocational Training Center—Working Drawings.
16. Santa Barbara CCD, Santa Barbara City College, Drama and Music Building Modernization—Working Drawings.
17. Sonoma County CCD, Santa Rosa Junior College, Plover Library Conversion—Construction.
18. Victor Valley CCD, Victor Valley College, Seismic Replacement-Auxiliary Gym—Construction and Equipment.

Amend Item 6870-301-6048 to reflect a delay caused by a revised campus-wide environmental impact report that is still under review by the California Coastal Commission (Commission). The project cannot resume until the report is cleared by the Commission and therefore, the phases below cannot be utilized as proposed in the 2006-07 Budget and the current phase, working drawings, will need to be reappropriated (see corresponding reappropriation of working drawings in Item 6870-491 to reappropriate funds from Item 6870-301-6041, Budget Act of 2004).

3. Decrease funding (\$28,188,000) for the Santa Barbara CCD, Santa Barbara City College: High Technology Center—Construction and Equipment.

Amend Item 6870-497 to revert funds for the following project phases from Item 6870-301-6028, Budget Act of 2003, as reappropriated by Item 6870-490, Budget Act of 2004 and Budget Act of 2005:

1. Compton CCD, Compton College, Performing Arts and Recreation Complex—Working Drawings. A reversion is necessary due to a dispute between the college and the Accrediting Commission for Community and Junior Colleges (ACCJC) where Compton is appealing the ACCJC's decision to terminate accreditation before ACCJC's parent organization, the Western Association of Schools and Colleges. Further work is postponed until the college's accreditation issues are resolved.
2. Shasta-Tehama-Trinity CCD, Shasta College, Library Addition—Construction and Equipment. A reversion is necessary due to project increases beyond the approved budget. The project has been to bid twice and both have been unsuccessful. The district will seek a new appropriation in the 2007-08 Budget.

Amend Item 6870-497 to revert funds for the following project phases from Item 6870-301-6041, Budget Act of 2004, as reappropriated by Item 6870-490, Budget Act of 2005:

1. Compton CCD, Compton College, Performing Arts and Recreation Complex—Construction and Equipment. A reversion is necessary due to a dispute between the college and ACCJC as discussed above.

ISSUE 14: Public Comment:

DESCRIPTION: The Subcommittee approved **\$3.2 billion** in one-time Proposition 98 funding for K-14 education at the March 27, 2006 hearing. This included **\$500 million** in funding for the 2005-06 year and **\$270 million** over a ten year period. The Subcommittee agreed to revisit discussion about the uses of these one-time funds at a future hearing. At today's hearing, the Subcommittee is inviting public comment on the uses of the \$3.2 billion in one-time Proposition 98 funds.

ATTACHMENT A.

Suggestions for Improving Data:	McGeorge School of Law	Office of Administrative Hearings
a. which side is winning entire cases more often	✓	✓
b. which side is winning most issues in the split decisions	✓	
c. how often are schools and parents represented by lawyers	✓	✓
d. how many pre-hearing motions were filed by each side	✓	
e. which side is winning most of the pre-hearing motions filed	✓	
f. how many parent requests for due process were dismissed for insufficiency		
g. how often are students of color accessing this system		
h. how often are non-English speaking individuals using this system		
i. how long do the hearings take	✓	✓
j. how much of each hearing, on average, is consumed by the parent's presentation of her case		
k. how much of each hearing, on average, is consumed by the district's presentation of its case		
l. how many of the hearing requests are from parents	✓	✓
m. how many of the hearing requests are from school districts	✓	✓
n. how many witnesses are school districts calling on average		
o. how many witnesses are parents calling on average		
p. from which districts did parent requests for due process come	✓	✓
q. what issues, within special education, generated due process hearing requests during the quarter	✓	
r. what disabilities generated due process hearing requests during the quarter	✓	
s. what age groups (preschool, primary, JH, HS) generated hearing requests during the quarter	✓	✓
t. how many hearing decisions were appealed to court during the quarter	✓	
u. how many cases were totally resolved in mediation by agreement	✓	✓

ATTACHMENT B.
First Interim Status Report, 2005-06

Taken from: <http://www.cde.ca.gov/fg/fi/ir/first0506.asp>
 Last modified: Tuesday, March 14, 2006

[Display version](#)

First Interim Status, Fiscal Year 2005-06

CALIFORNIA DEPARTMENT OF EDUCATION

List of Negative and Qualified Certifications School Districts and County Offices of Education 2005-06 First Interim Report

Negative Certification

A negative certification is assigned to a school district or county office of education when it is determined that, based upon current projections, the school district or county office of education will not meet its financial obligations for fiscal year 2005-06 or 2006-07.

County	District	Total Budget (\$)
Alameda	Oakland Unified	432.1 million
Butte	Biggs Unified	6.4 million
Fresno	Parlier Unified	25.7 million
Fresno	West Fresno Elementary	8.1 million
Solano	Vallejo City Unified	143.3 million

Qualified Certification

A qualified certification is assigned to a school district or county office of education when it is determined that, based upon current projections, the school district or county office of education may not meet its financial obligations for fiscal year 2005-06, 2006-07, or 2007-08.

County	District	Total Budget (\$)
Amador	Amador County Office	8.0 million
Amador	Amador County Unified	31.5 million
Butte	Paradise Unified	37.4 million
El Dorado	Gold Oak Union Elementary	5.3 million
Kings	Delta View Joint Union Elementary	0.7 million
Lassen	Johnstonville Elementary	1.7 million
Lassen	Shaffer Union Elementary	2.4 million
Lassen	Westwood Unified	4.7 million
Los Angeles	Eastside Union	22.3 million
Los Angeles	Las Virgenes Unified	87.4 million
Los Angeles	Lowell Joint Elementary	23.3 million
Los Angeles	Palmdale Elementary	163.7 million

Los Angeles	South Pasadena Unified	29.5 million
Mendocino	Anderson Valley Unified	6.5 million
Mendocino	Willits Unified	16.5 million
Monterey	Salinas City Elementary	62.9 million
Monterey	Spreckels Union	6.0 million
Placer	Placer Hills Union Elementary	8.9 million
Sacramento	San Juan Unified	358.0 million
San Benito	Aromas San Juan Unified	9.7 million
San Benito	Hollister Elementary	42.9 million
San Mateo	San Mateo Union High	88.5 million
Shasta	Junction Elementary	3.1 million
Siskiyou	Dunsmuir Joint Union High	1.6 million
Siskiyou	Willow Creek Elementary	0.5 million
Solano	Benicia Unified	34.9 million
Sonoma	Healdsburg Unified	18.5 million
Sonoma	Monte Rio Elementary	1.2 million
Sonoma	Montgomery Elementary	0.6 million
Sonoma	Sonoma Valley Unified	35.6 million
Tehama	Corning Union Elementary	14.4 million
Ventura	Fillmore Unified	27.6 million

<http://www.cde.ca.gov/fg/fi/ir/first0506.asp>

ATTACHMENT C.
Statewide Categorical Mega Item Transfers
(Budget Control Section 12.40)
2003-2004

2003-2004 Statewide Categorical Mega Item Transfers

Budget Act Item	Resource Code and Program Title	Object Code 8998 Transfer	Transfer In	Transfer Out
6110-127, 209, 224	0000 – Unrestricted		5,843,720	(831,214)
6110-203	5310 - Child Nutrition: School Programs (e.g., School Lunch, School Breakfast, Milk)		31,269	(46,663)
6110-487	6200 - Class Size Reduction Facilities Funding			(51,182)
6110-200	6240 - Healthy Start: Planning Grants and Operational Grants			(196,636)
6110-101	6263 - Paraprofessional Teacher Training (CTC)			(76,847)
6110-134	6265 - Teachers As a Priority (TAP) Block Grant			(131,774)
	6285 - Community-Based Tutoring Grants			(100,471)
	6286 - English Language Acquisition Program, Teacher Training & Student Assistance			(34,000)
6110-125	6292 - Classroom Library Materials, Grades K-4			(36,118)
6110-150	6295 - (Obsolete) Library Funding			(5,908)
6110-149	6296 - Calif. Public School Library Act of 1998			(298,203)
	6340 - Parent/Teacher Involvement: Nell Soto Program			(13,127)
	6341 - Parent/Teacher Involvement: Teresa Hughes Family/School Partnerships			(79)
6110-228	6405 - School Safety & Violence Prevention, Grades 8-12			(35,000)
6110-102	6670 - Tobacco-Use Prevention Education: High School Competitive Grants			(2,765)
6110-167	7010 - Agricultural Vocational Incentive Grants			(54,820)
6110-132	7045 - Targeted Instructional Improvement Grants Program (TIIG)	7,865,728		(3,461,418)
6110-120	7060 - Dropout Prevention: Educational Clinics	18,017		(11,766)
6110-120	7065 - Dropout Prevention: Implementation Model			(494)
6110-120	7070 - Dropout Prevention: Alternative Work Centers	15,877		(9,600)
6110-120	7075 - Dropout Prevention: Motivation/Maintenance	52,668		(102,472)
6110-128	7090 - Economic Impact Aid (EIA)	147,037		(7,089,562)
6110-128	7091 - Economic Impact Aid: Limited English Proficiency (LEP)	22,612		(12,572,737)

Budget Act Item	Resource Code and Program Title	Transfer In	Transfer Out
6110-181	7110 - Education Technology: CTAPS, SETS, & Supplemental Grants	732,170	(122,281)
6110-181	7120 - Education Technology: Staff Development	55,589	(7,283)
6110-163	7130 - Early Intervention for School Success (EISS)	607	(560)
6110-124	7140 - Gifted & Talented Education (GATE)	1,852,729	(1,276,401)
	7186 - Institutional Materials/Staff Buyout One-time, Per-pupil Block Grant (99/00)		(25,905)
6110-111	7230 - Transportation: Home to School	20,640,441	(133,794)
6110-111	7235 - Transportation: School Bus Replacement	2,531	
6110-111	7240 - Transportation: Special Education (Severely/Orthopedically Handicapped)	9,040,824	(2,181)
	7250 - School Based Coordination Program (SBCP)		(303,436)
6110-116	7260 - School Improvement Program (SIP)	1,262,049	(19,055,711)
6110-116	7265 - School Improvement Program (optional)	42,013	(694,188)
6110-193	7271 - California Peer Assistance & Review Program for Teacher (CPARP)	666,125	(794,107)
6110-193	7274 - Advanced Placement Challenge Grant		(3,865)
6110-191	7280 - Staff Development: Beginning Teacher Support & Assessment Study (BTSA)		(26,807)
6110-240	7286 - International Baccalaureate (IB) Program: Staff Development & Startup		(10,000)
6110-144, 6110-485	7325 - Staff Development: Principals' Training (AB 75)		(27,130)
6110-197	7345 - Staff Development: Intersegmental Teacher Education Institutes (CTEI)		(11,671)
6110-119	7365 - Supplementary Programs: Foster Youth		(183,388)
6110-119	7366 - Supplementary Programs: Foster Youth in Licensed Care Facilities		(4,403)
6110-108	7375 - Tenth Grade Counseling	98,816	(542,289)
	7810 - Other State		(2,567)
Grand Total (variance due to rounding)		48,390,820	(48,390,820)
5-25-05 California Department of Education			